Stop & Shop

annual report 1965

50

FIFTY YEARS OF SERVICE

Officers

Sidney R. Rabb
Chairman of the Board and Treasurer

Joseph Rabinovitz
Honorary President

Irving W. Rabb
President

Lloyd D. Tarlin
Financial Vice-President

Donald A. Gannon
Executive Vice-President

Charles R. Carroll, Jr.
Vice-President

Robert H. Kroeger
Vice-President

Arthur Norris
Vice-President

Michael F. O'Connell
Vice-President

Jacob Rabinovitz
Vice-President

Jack Solomon
Vice-President

Richard F. Spears
Vice-President

Max E. Bernkopf
Clerk

Albert S. Frager
Controller and Assistant Clerk

George P. Kane
Assistant Treasurer

Harold E. Fine
Divisional Vice-President

Avram J. Goldberg
Divisional Vice-President

Directors

William Applebaum

Max E. Bernkopf

Norman L. Cahners

Donald A. Gannon

Irving W. Rabb

Norman S. Rabb

Sidney R. Rabb

Jacob Rabinovitz

Sidney L. Solomon

Lloyd D. Tarlin

Joseph Rabinovitz
Honorary Director

Stop & Shop Annual Report for the year ended July 3, 1965

Comparative Highlights

	1965 53 weeks	1964 52 weeks
Sales	$423,172,518	$398,484,510
Earnings		
Before taxes on income	$ 8,295,648	$ 7,640,630
After taxes on income	$ 5,254,054	$ 4,950,147
Cash dividends paid	$ 1,674,670	$ 1,173,475
Cash dividends per share	.55	.40
Stock Distribution	3%	3%
Reinvested in the business	$ 3,579,384	$ 3,776,672
% of net earnings to sales	1.24%	1.24%
Per share of stock now outstanding, less shares held in Treasury	1.71	1.61
Current Assets	$ 42,058,658	$ 36,398,412
Current Liabilities	$ 20,039,804	$ 17,827,310
Working Capital	$ 22,018,854	$ 18,571,102
Current Ratio	2.10	2.04
Shareholders' Equity	$ 40,452,686	$ 37,649,007
Food Stores opened	2	4
Food Stores closed	4	4
Food Stores in operation year end	141	143
Self-service department stores opened and acquired	7	6*
Self-service department stores in operation year end	30	23*
Employees	11,742	11,204*

Note: The figures for both fiscal years include the operations of the Orbit stores, acquired in January 1965, except those marked with * which are as reported last year.

Transfer Agents
The First National Bank of Boston
Bankers Trust Company of New York

Registrars of Stock
The National Shawmut Bank of Boston
Morgan Guaranty Trust Company of New York

Auditors Peat, Marwick, Mitchell & Co.

General Counsel
Sherin & Lodgen, Boston

General Offices
393 D Street, Boston 10, Massachusetts

Shares Traded on Boston Stock Exchange
and American Stock Exchange

Annual meeting of shareholders will be held at the company's offices. 393 D Street. Boston. Wednesday. September 22. 1965 at 1:30 P.M.

Sidney R. Rabb
Chairman of the Board

To our Shareholders, Employees and Friends

We report with great pleasure for the fiscal year ending July 3rd. This is our fortieth annual report as a publicly owned company and represents the results of operations for our fiftieth year in business. In this year we have achieved the highest sales and earnings in our entire history, despite continued intensive and aggressive competitive price and promotional activities in many of our food marketing areas. Our Bradlees Division of self-service department stores, referred to as mercantile stores, is now making an important contribution to company sales and earnings with even brighter prospects ahead as more stores are added and existing stores achieve a higher volume and earnings level as they reach the maturity of the second and third year of operations.

Sales and Earnings

Sales for the 53 week fiscal year were $423,172,518 compared with $398,484,510 in 1964, a gain of 6.2%. These sales include only the sales of owned departments in our mercantile stores. Net income after taxes rose 6.1% to $5,254,054, equal to $1.71 per share, compared with $4,950,147, or $1.61 per share in 1964, computed for both years on the basis of 3,069,564 shares outstanding on July 3, 1965. Both sales and earnings for last year and this year have been restated to reflect the acquisition of Orbit (operators of 3 mercantile stores) on January 18, 1965 under the "pooling of interests" method of accounting.

The provision for taxes this year has been reduced by $160,457, representing this year's investment credit. Our investment credit reflected in last year's report was $547,000 of which $325,000 represented the current year's credit and the balance reflected investment credit of the prior year which, due to the 1964 amendment to the Revenue Act, could be treated as current income. During the year the company acquired 32,099 shares of its common stock. The company may purchase additional shares from time to time in the future.

Distribution to Shareholders

A 3% stock dividend was distributed to shareholders on November 2, 1964. This was the fourteenth year that the company had supplemented its modest cash dividend by a stock dividend or other stock

distribution. This policy permitted the company to retain a substantial portion of its annual earnings as a source of funds to finance future growth. Your directors now feel that the earnings of the company have reached a level that justifies a more liberal cash dividend distribution to shareholders. The quarterly dividend was increased from 10¢ per share to 15¢ per share beginning with the second quarterly payment on January 2, 1965, thus placing the stock on a 60¢ annual basis.

Retail Food Operations

During the year we opened 2 food stores and closed 4 outmoded stores, bringing the total number of food stores in operation at the year end to 141. In addition, we did major remodeling to 17 stores, a planned program to up-date facilities and keep stores modern.

During the year, 27 Stop & Shop stores discontinued the distribution of trading stamps and adopted a low price - no stamp - aggressive price policy coupled with substantially increased advertising. Since the close of the fiscal year all remaining stores have been converted to this so-called "discount" basis. This course was adopted in recognition of the customer's preference for lower prices, better values and instant cash savings. The first results of these conversions were a sharp increase in sales and an initial severe impact on earnings, varying in intensity in different marketing areas. The objective is to raise the sales and earnings in these stores ultimately to a higher and more stable level. For this past year, the earnings of these stores as a group initially fell behind those of the previous year, but the results of the stores on this program for some time indicate that the prospects for achieving our objective are good in the period immediately ahead.

These fundamental changes illustrate once again the dynamic nature of the retail food business. To keep attuned to the industry's latest developments, we have been continually studying our markets and marketing practices and have carried on extensive experimentation particularly during this past year.

An intensive study of our food marketing area was completed last year. According to a trade publication, Stop & Shop is the third largest food retailer in New England, the second largest in Massachusetts and the largest in the metropolitan Boston area. We have now determined the type and direction of our development program and have embarked on the next phase of our new store program. Ten new large food stores are in various stages of construction and planning — all should be open by the end of 1966 — and others are in various stages of negotiation.

Stop & Shop's Foodmart, the chain's first supermarket, Cambridge, Massachusetts, opened in October, 1935.

Combining traditional Cape Cod architecture with the latest in modern supermarket decor, Stop & Shop opened its 4th Cape supermarket in Orleans.

Economy Grocery Store, predecessor to the Stop & Shop chain, though small in size, catered to the needs of yesterday's customers.

Service and Manufacturing Facilities

Service facilities must constantly be increased and modernized for a growing business. Plans are underway to construct a new Perishable Distribution Center in the Readville area adjacent to our Grocery Distribution Center and our Commissary. As your company grows in size, manufacturing activities become more and more desirable. Over the years we have gradually increased our interest in manufacturing which has proven to be a profitable investment for the company. At the present time the company operates its own bakery, commissary, salad kitchen, cheese packaging, mayonnaise and salad dressing, coffee roasting, milk processing and potato chip plants. The production of other items is under consideration. We are presently making extensive renovations in our bakery. The introduction of new and more efficient equipment and improved engineering design will enable us to increase the volume of production as well as expand the number of varieties.

Children love ice cream — especially when it's Stop & Shop's Country Fine Ice Cream, all wrapped up in a brand new package.

Mercantile Stores

Our Bradlees mercantile division had a very successful year as consumer acceptance of its concept of self-service mass merchandising grew. Each store has shown a gain in volume and earnings again this year over the year before. One new store was opened in Fall River, Mass. adjacent to a Stop & Shop market. We completely enlarged, renovated, and refixtured our New London store. During the year we added six stores in two separate transactions. Three Orbit stores located in Dorchester, Mass., Lynn, Mass. and Groton, Conn. were acquired in January in exchange for stock. Three Family Circle stores located in Keyport, Eatontown and Laurelton, New Jersey were acquired in May for cash. Including these acquisitions, we operated thirty mercantile stores at year end. The first strengthened our competitive position in trading areas already served; the second brought us into the rapidly growing shore area of New Jersey, our first entry into this state. Plans for the further expansion of our mercantile division are underway. Stores in Dorchester and Dennisport, Mass. have opened since the fiscal year began and six other units are under construction. All but two of these stores should be open for the Christmas season.

We have continued to take over the operation of certain licensed departments as licenses expire. Owned departments represent about 75% of the volume in newer stores and about 60% of our total present volume in all stores. Storage and service areas of all stores have been surveyed and new and more efficient layouts have been provided wherever needed.

Our organization has continued to expand as we have increased the number of retail outlets. Qualified specialists have either been developed from within or attracted to us from the outside to handle our increasing merchandising and operating responsibilities. Arrangements have been completed for the construction of a 250,000 sq. ft. mercantile warehouse and distribution center in Braintree, Mass. This will enable us to handle the distribution of fashion and soft goods for our larger operation as well as to warehouse economically many items of hard lines formerly handled on a direct delivery basis. This facility is expected to be in operation in the late spring of 1966.

There seems to be an industry trend towards the upgrading of both store facilities and merchandise lines in mercantile stores today. We had recognized this probable trend early in our development period and designed our stores with this objective in mind. We are constantly looking ahead to sense any new trends in this distribution evolution which we can incorporate into our newer units. We expect our mercantile stores to be an important factor in the generation of our sales and earnings in the years ahead.

Real Estate

Our real estate subsidiaries have had an active year. They constructed the mercantile units in Fall River and Dennisport, Mass. and the food market recently opened in Orleans, Mass. They acquired the property occupied by Bradlees in Manchester, New Hampshire, Orbit in Dorchester, Mass. and the building for a new Sayreville, New Jersey mercantile store. They are constructing our new food store in Lexington, Mass. and Wallingford, Conn. and are planning the Perishable Distribution Center in Readville.

We believe that ownership of real estate is advantageous to the company. Not only are we able to generate substantial equities in property as years pass, but because we are able to obtain approximately 100% financing from institutional investors, based on a net lease from the parent company, no appreciable corporate funds are required for acquisition. The carrying costs of the completed property are as low and usually lower than comparable rentals because we retain the lessor's profit. Our ownership gives us great flexibility in building, remodelling and altering or in building stores for others adjacent to our own stores. On the other hand, ownership also permits the company to close, relocate or dispose of outmoded locations at will. Our policy of ownership of property as well as leas-

Local dignitaries join Stop & Shop officials for groundbreaking ceremonies in Bedford, Massachusetts. The site will soon house a modern one-stop shopping complex.

Stop & Shop's Orbit department store in Dorchester is one of the three recently acquired by the company.

ing has given us an added advantage in competition for desirable locations. Within the next few years, loans on some properties will be fully discharged and, as the years pass, other loans will become fully paid. As this occurs, the cash flow of the consolidated companies will be enhanced by these funds no longer needed to service loans. Each year as principal is reduced on each individual loan, the interest factor in the loan payment declines — this reduces occupancy costs or offsets rising property taxes.

A typical Economy store of an era long since past shows employees ready and waiting for the early-morning rush.

Bradlees' spacious aisles make shopping a pleasure. Wide selections of the latest in fashions are available each and every day.

The income statement and balance sheet of our consolidated realty companies are shown separately although the earnings are included in the consolidated earnings and our equity is fully reflected in the consolidated balance sheet.

Corporate Services

Our general offices have been structured to serve the requirements of both our food and mercantile business. Accounting, personnel administration, construction and maintenance and real estate are fully integrated. Our data processing information center is designed to serve our entire corporate needs. We are just beginning to reap the benefits of many years of planning. More sophisticated computers are on order which will give us greater capacity, faster operation and lower costs per operation. We have already implemented our warehouse inventory control and store billing procedure coupled with direct store to warehouse transmission of ordering data and the IBM automatic inventory IMPACT control and re-ordering system. Our computers handle payrolls and accounts payable. Additional accounting and valuable information systems are in varying stages of planning for all divisions of the company.

Capital Requirements

Our capital needs have been supplied from funds generated internally by retained earnings, depreciation reserves and amortization. We have arranged to extend to October 1, 1966 our standby arrangements for $5,000,000 of additional funds.

Planning Ahead

Mass retailing, both food and mercantile, continues to grow. We are constantly studying our present marketing areas and other areas that have potential for our type of operations, taking into account the growth and changes of population and purchasing power. Our store location and merchandising strategies are planned accordingly.

Over the years, the company's labeling and packaging has kept pace with the changing times.

Ultra-modern company computer facilities serve the needs of Stop & Shop's many corporate divisions.

Stop & Shop's award-winning Junior Achievement students learn what makes today's modern corporations "tick".

People

The development of manpower continues to be one of the most critical areas of the business. Our personnel recruitment and training must supply our company with the people it needs as it grows. We have established training programs designed to service all levels of our business.

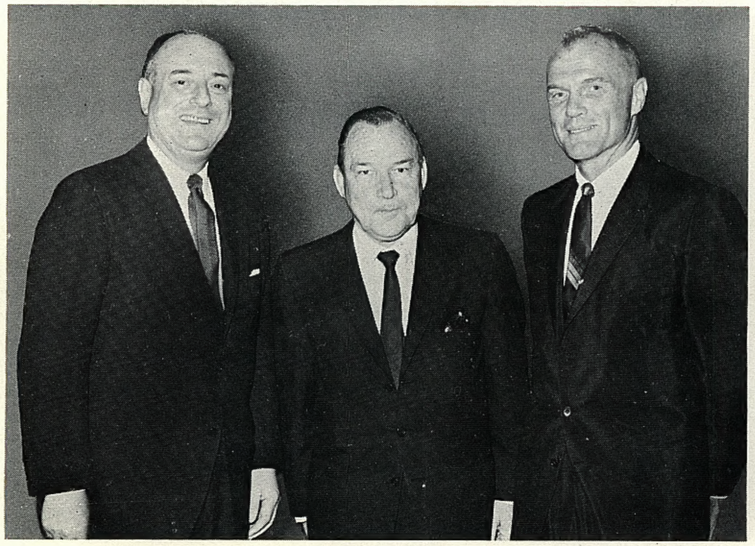
In addition to amplifying our development programs initiated last year, the company is in the process of developing training stores and has embarked on an extensive use of programmed learning techniques to permit diverse training at our remote sites.

The Team Training Program has been initiated to develop more effective leadership and to assist in the evolution of smooth working teams at all levels in the company. Throughout the year we will continue to emphasize the development and selection of management talent to create the reserve of manpower needed to continue our growing operations.

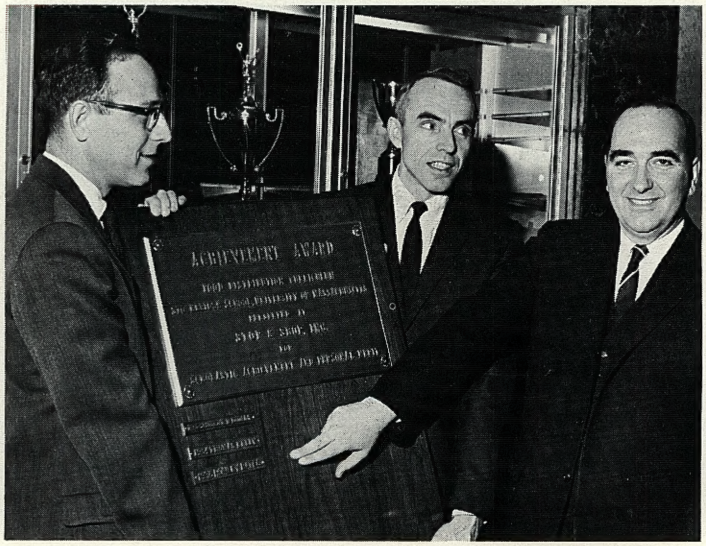
We continue to encourage self-development through a tuition refund program. Scholarship programs enable young employees and the children of older employees to obtain full or partial aid in furthering their college career.

"Where Your Food Dollar Buys More" remains a popular slogan at Stop & Shop. Aggressive merchandising combined with quality and friendly service make the Stop & Shop customer keep coming back.

Irving W. Rabb, Stop & Shop's new President, steps down as President of Super Market Institute after two years of service. Robert Cullem (center) takes over the leadership of the nationwide supermarket trade organization. Also in attendance at the annual meeting was John Glenn, America's first man in space.



L. R. Fortier (right), Stop & Shop's Personnel Director, points out name of this year's outstanding graduate of University of Massachusetts Food Distribution Program. Holding the permanent plaque are Professors Theodore W. Leed (left) and Donald R. Marion.



Donald A. Gannon, Stop & Shop's Executive Vice President, joins with Alfred Ponte, the chain's Produce Sales Manager, to select the name of the lucky winner of the company-wide June is Produce Month promotion.

The company's success in this year as in every other year is measured to a large extent by the skill, dedication and ability of the over 11,000 full-time and part-time men and women in the Stop & Shop — Bradlees family. Your officers are most appreciative for their devoted service to the company.

Because of advancing years, Mr. Joseph Rabinovitz retired from the presidency last September, having served in that office almost forty years, and in February retired as a director. The Board of Directors, in September, 1964, elected Mr. Rabinovitz Honorary President. We all cherish the many years we have been privileged to work with him and to benefit from his sage advice, rich experience and youthful enthusiasm.

Mr. Irving W. Rabb was elected to succeed Mr. Rabinovitz as president. Mr. Rabb has been in the employ of the company since 1934. He has served in various executive capacities, most recently as Vice President and general manager. Mr. Rabb has been a director of the company since 1942.

Mr. Norman Rabb, Senior Vice President and Vice Chairman of the Board of Directors, elected to retire from active participation in the company on July 3rd after forty years of service in the company's food merchandising. Mr. Rabb will remain as a director and his services will continue to be available on a consulting basis.

Sidney R. Rabb
Chairman of the Board

Norman S. Rabb receives gift from Lloyd D. Tarlin, Stop & Shop's Financial Vice President, at Mr. Norman's recent retirement party.

STOP & SHOP, INC., AND
CONSOLIDATED

July 3, 1965 (with comparative

Assets	1965	1964
Current Assets:		
Cash	$ 4,955,498	$ 3,333,276
U.S. Treasury Bills, at cost	559,327	230,208
Accounts receivable	2,299,243	2,550,150
Inventories, at the lower of cost or market	32,577,525	28,504,512
Prepaid expenses	1,667,065	465,474
Total current assets	42,058,658	35,083,620
Investments in and advances to wholly-owned realty subsidiaries not consolidated, at net equity value (note 1)	4,469,493	4,251,182
Fixed Assets, At Cost (excluding fully-depreciated assets):		
Fixtures, machinery and equipment	29,422,860	27,972,527
Less accumulated depreciation	11,487,283	9,102,683
	17,935,577	18,869,844
Leasehold improvements, at cost less accumulated amortization	7,383,742	6,903,514
Net fixed assets	25,319,319	25,773,358
Other Assets:		
Notes receivable, investments, etc., at cost	935,264	1,088,754
Deferred charges	531,395	189,095
Total other assets	1,466,659	1,277,849
	$ 73,314,129	$ 66,386,009

See accompanying notes to financial statements.

CONSOLIDATED SUBSIDIARIES
BALANCE SHEET

figures as of June 27, 1964)

Liabilities	1965	1964
Current Liabilities:		
Accounts payable	$ 16,215,708	$ 13,449,596
Accrued expenses	3,824,096	3,550,533
Federal taxes on income, estimated, less U.S. Treasury Bills $2,440,673 (1964, $2,269,792)	—	—
Total current liabilities	20,039,804	17,000,129
Deferred Federal taxes on income	1,321,639	1,084,382
Long-Term Debt (note 3)	11,500,000	11,500,000
Stockholders' Equity:		
Capital stock of $1 par value per share. Authorized 4,000,000 shares. Issued and outstanding 3,101,663 shares (1964, 2,955,336 shares) (note 4)	3,101,663	2,955,336
Capital in excess of par value of capital stock	14,332,768	12,015,166
Retained earnings, exclusive of amounts capitalized through stock dividends (note 3)	23,792,666	21,830,996
	41,227,097	36,801,498
Less cost of 32,099 shares in Treasury	774,411	—
Total stockholders' equity	40,452,686	36,801,498
	$ 73,314,129	$ 66,386,009

STOP & SHOP, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Earnings and Retained Earnings

Year ended July 3, 1965 (with comparative figures for the year ended June 27, 1964)

	1965 (53 weeks)	1964 (52 weeks)
Retail sales	$423,172,518	$391,417,860
Net earnings of wholly-owned realty subsidiaries (note 1)	1,083,078	1,090,833
Total	424,255,596	392,508,693
Cost and expenses:		
Cost of goods sold, buying and warehousing costs	335,210,494	309,544,509
Selling, store operating and administrative expenses	76,437,333	71,260,014
Depreciation and amortization	3,705,186	3,485,986
Interest on borrowings other than mortgages	606,935	657,151
	415,959,948	384,947,660
Earnings before Federal taxes on income	8,295,648	7,561,033
Federal taxes on income, estimated (note 2)	3,041,594	2,653,756
Net earnings	5,254,054	4,907,277
Retained earnings at beginning of year	21,830,996	19,791,075
	27,085,050	24,698,352
Amount arising from pooling of interests (note 1)	396,480	—
	27,481,530	24,698,352
Less dividends paid:		
Stock dividend 3%	2,014,194	1,693,881
Cash dividends	1,674,670	1,173,475
	3,688,864	2,867,356
Retained earnings at end of year	$ 23,792,666	$ 21,830,996

Consolidated Statement of Capital in Excess of Par Value of Capital Stock

Year ended July 3, 1965 (with comparative figures for the year ended June 27, 1964)

	1965 (53 weeks)	1964 (52 weeks)
Balance at beginning of year	$ 12,015,166	$ 10,444,760
Add:		
Excess over par value of 3% stock dividend charged to retained earnings	1,872,819	1,562,324
Credit resulting from exchange of shares of Stop & Shop, Inc. for the capital stock of acquired companies (note 1)	394,590	—
Excess over par value of proceeds from sales of capital stock to employees under stock option plans	50,193	8,082
Balance at end of year	$ 14,332,768	$ 12,015,166

See accompanying notes to financial statements.

WHOLLY-OWNED REALTY SUBSIDIARIES OF STOP & SHOP, INC.

Combined Balance Sheet

July 3, 1965 (with comparative figures as of June 27, 1964)

	1965	1964
Assets:		
Cash	$ 18,176	$ 18,373
Accounts receivable	32,519	104,300
Due from Stop & Shop, Inc.	3,546,530	2,681,763
Fixed assets, at cost (note 3):		
Land, buildings and improvements	51,883,937	48,702,643
Buildings and improvements on leased land	4,270,386	4,205,386
	56,154,323	52,908,029
Less accumulated depreciation and amortization	11,569,253	9,697,779
	44,585,070	43,210,250
Other assets	156,832	157,462
	$ 48,339,127	$ 46,172,148
Liabilities:		
Current installments of long-term debt	$ 2,483,334	$ 1,313,878
Accounts payable and accrued expenses	1,506,559	1,027,471
Federal taxes on income, estimated	270,734	272,123
Deferred Federal taxes on income	1,333,029	1,045,057
Long-term debt, less current installments above (note 3)	34,729,448	35,580,674
Stop & Shop, Inc.'s equity:		
Capital stock	71,820	71,820
Retained earnings	7,944,203	6,861,125
	$ 48,339,127	$ 46,172,148

Combined Statement of Earnings and Retained Earnings

Year ended July 3, 1965 (with comparative figures for the year ended June 27, 1964)

	1965 (53 weeks)	1964 (52 weeks)
Rental income, substantially all intercompany	$ 7,349,190	$ 7,177,829
Expenses and other deductions:		
Interest on mortgages	2,000,835	1,908,203
Operating and administrative expenses	1,822,090	1,794,878
Depreciation and amortization	1,871,474	1,767,495
	5,694,399	5,470,576
Earnings before Federal taxes on income	1,654,791	1,707,253
Federal taxes on income, estimated (note 2)	571,713	616,420
Net earnings for the year	1,083,078	1,090,833
Retained earnings at beginning of year	6,861,125	5,960,580
	7,944,203	7,051,413
Liquidating distribution to Stop & Shop, Inc.	—	190,288
Retained earnings at end of year	$ 7,944,203	$ 6,861,125

See accompanying notes to financial statements.

Notes to Financial Statements

(1) The consolidated financial statements include the accounts of the parent company and all its subsidiaries except its wholly-owned realty subsidiaries for which separate combined financial statements are presented. In the financial statements to be filed with the Securities Exchange Commission for the year ended July 3, 1965, the accounts of the realty subsidiaries will be included in the consolidated statements. The effect will be to reflect in the consolidated balance sheet the assets and the liabilities of the combined realty subsidiaries and to eliminate the investment in and advances to wholly-owned realty subsidiaries not consolidated. There will be no difference in net earnings and retained earnings to be reported to the Securities Exchange Commission since the financial statements in this report reflect the unconsolidated realty subsidiaries at equity value.

The consolidated statement of earnings and retained earnings for 1965 includes the results for the full year of the Orbit stores acquired for capital stock during the year as a pooling of interests. Based on unaudited interim financial statements, their net worth and working capital at June 27, 1964 amounted to $847,509 and $487,611 respectively, and sales and net earnings for the year then ended amounted to $7,066,650 and $42,870 respectively.

(2) The provision for Federal income taxes charged to consolidated earnings for the year ended July 3, 1965 has been reduced by $160,000 representing the investment credit for the current year. The corresponding credit in 1964, including $222,000 balance of deferred investment credit from prior years, amounted to $547,000. The fixed assets in the realty subsidiaries do not qualify for the investment credit.

Details of the provision for Federal income taxes are as follows:

	Stop & Shop, Inc. and Consolidated Subsidiaries		Wholly-Owned Realty Subsidiaries not consolidated	
	1965	1964	1965	1964
Current	$2,824,852	$2,502,956	$283,741	$325,920
Deferred	216,742	150,800	287,972	290,500
	$3,041,594	$2,653,756	$571,713	$616,420

(3) Long-term debt, less installments due within one year:

Stop & Shop, Inc. and Consolidated Subsidiaries:

Promissory notes, $5^1/_8$%, payable $500,000 annually commencing 1967, and the balance of $4,000,000 in 1982	$11,500,000

The terms of the agreement relating to the unsecured promissory notes, $5^1/_8$%, contain restrictions on the payment of cash dividends and the purchase or retirement of the company's capital stock. At July 3, 1965 the consolidated retained earnings not so restricted amounted to approximately $7,400,000.

Wholly-Owned Realty Subsidiaries:

Mortgage notes, $3^1/_2$% to $6^1/_4$%, maturing over a maximum period of twenty years. Although not signed by the company or its subsidiaries, these notes are secured by land, buildings and improvements costing approximately $56,100,000 and by assignments of intercompany lease agreements	$34,729,448

Current installments of $440,923 under the foregoing mortgage notes have been prepaid.

After July 2, 1966, the mortgage notes mature at an average annual rate of approximately $2,500,000 through 1978 and thereafter at smaller varying amounts through 1985.

(4) During the current year the company terminated the old Restricted Stock Option Plan (except for options granted) and adopted a new Qualified Stock Option Plan for key employees under the applicable provisions of the Internal Revenue Code. The new plan provides that 51,500 shares be reserved for future stock options, that options be granted at not less than 100% of fair market value on the date of grant, and that the term of options be limited to five years. No options have been granted under the new plan.

Options granted under the old Restricted Stock Option Plan are exercisable over various periods extending to October 9, 1973 and were granted to principal shareholders at 110% of market value on dates of granting and at 95% in the case of all other participants. Outstanding options at July 3, 1965 have been granted to 24 officers and employees at prices ranging from $17.39 to $24.72 per share.

Changes during the current year are summarized as follows:

	Number of shares	
	Issuable under options granted	Available for option
Balance at beginning of year	44,411	41,119
Additional authorized	—	8,881
3% stock dividend	1,262	1,500
Exchanged for outstanding Orbit options	440	—
Exercised at $7.78 to $20.46 per share — total $53,776 (market values $23.63 to $26.25 — total $88,384)	(3,583)	—
Cancelled	(1,846)	—
Balance at end of year	40,684	51,500

The number of shares under option at July 3, 1965 and related prices per share have been adjusted for stock dividends and stock splits.

(5) At July 3, 1965 the total minimum annual fixed rentals, exclusive of intercompany rentals, payable under leases expiring after three years, was approximately $5,155,000, plus real estate taxes, insurance, etc. under certain leases. Leases covering about 41% of this amount expire within the next fifteen years and the balance by 1985.

Summary of Source and Use of Funds

Year Ended July 3, 1965

	Stop & Shop, Inc. and Consolidated Subsidiaries	Wholly-Owned Realty Subsidiaries not Consolidated
Funds provided:		
Net earnings	$5,254,054	$1,083,078
Less cash dividends on capital stock	1,674,670	—
	3,579,384	1,083,078
Excess (deficiency) of depreciation and amortization over expenditures for fixed assets:		
Depreciation and amortization	3,705,186	1,871,474
Expenditures for fixed assets, net	3,251,147	3,246,294
	454,039	(1,374,820)
Net assets of Orbit stores acquired for stock (note 1)	847,509	—
Other, net	47,153	288,602
Decrease in working capital	—	1,719,133
	$4,928,085	$1,715,993
Used as follows:		
Purchase of Treasury stock	$ 774,411	$ —
Increase in investment in and advances to wholly-owned realty subsidiaries, not consolidated (note 1)	218,311	—
Increase in amount due from Stop & Shop, Inc.	—	864,767
Reduction of long-term debt	—	851,226
Addition to working capital	3,935,363	—
	$4,928,085	$1,715,993

See accompanying notes to financial statements.

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
JOHN HANCOCK BUILDING
BOSTON, MASS. 02116

The Stockholders
Stop & Shop, Inc.

We have examined the consolidated balance sheet of Stop & Shop, Inc. and consolidated subsidiaries and the combined balance sheet of wholly-owned realty subsidiaries of Stop & Shop, Inc. as of July 3, 1965, and the related statements of earnings and retained earnings and capital in excess of par value of capital stock for the year (53 weeks) then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of earnings and retained earnings and capital in excess of par value of capital stock present fairly the consolidated financial position of Stop & Shop, Inc. and consolidated subsidiaries and the combined financial position of wholly-owned realty subsidiaries of Stop & Shop, Inc. at July 3, 1965, and the results of their related operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying summary of source and use of funds for the year ended July 3, 1965 presents fairly the information shown therein.

Boston, Mass.
August 18, 1965

Peat, Marwick, Mitchell & Co

Our 50th Anniversary Celebration

50 Golden Years at Stop & Shop were commemorated with many exciting events designed with the customer in mind. The events included:

a. Golden Dozen Record — a "record" sellout!
b. Employee vacation to Italy — Jack Solomon, Bradlees' Vice President and Art Giokas, Bradlees' Advertising Director, draw the winning name.
c. 50th Anniversary Coloring Book contest designed for the "young at heart".
d. 50th Anniversary Birthday Party celebrated in all stores.
e. A number of special 50th Anniversary mailings.
f. Specially designed packaging — Stop & Shop's own cake and bacon packages.
g. Golden Garden Seed promotion.


STOP & SHOP
50
years of service
Your "Golden Opportunity" to
at a once-in-a-
STOP & SHOP GOLDEN CELEBRATION!
50
years of quality
WIN
AN OLD-FASHIONED
VACATION
Meatless Meals
Meant for Lent!
GROW A
Golden Garden
Nowhere else can you get
this fabulous buy!
8 DIFFERENT GOLDEN
ANNUALS IN ONE
GOLDEN PACKAGE!
33c
50
years of value
New Stop & Shop
Wednesday
ORL
Created especially for you...to celebrate
BONE
DINN
LIMITED EDITION
COLLECTOR'S ALBUM
A GOLDEN
DOZEN
Hit Tunes That Sold
Over a Million...
STOP & SHOP GOLDEN CELEBRATION!
BIRTHDAY
SALE!
STOP & SHOP
50
years of value
E!
SALE STARTS
MON., FEB. 15th
e


STOP & SHOP
Golden Anniversary Bacon
GOLDEN
50
SPECIAL
f


Golden Garden
g

STOP & SHOP INC., 393 D STREET, BOSTON, MASSACHUSETTS 02210

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